

Problem Set 4

EC 391: International Economics I

Due on: Wednesday August 1, 2018

True/False/Uncertain (16 points)

Instructions: For each of the following statements, indicate whether it is true, false, or if the assertion is indeterminate. In all cases, defend your answer with a concise explanation. **To earn full credit, you must include an explanation with your answer.**

1. The amount of an antidumping duty is always determined by comparing the import price to a price charged for the product in a third market.
2. Consumers in the U.S. are better off when the foreign exporter dumps a product in the U.S. market.
3. It is more efficient for the government of a small country to impose an import tariff than a production subsidy to stimulate output because it does not have to pay the producers directly.
4. It is possible for the government to reduce the output of a domestic monopolist despite adopting a policy that shields this firm from import competition.

Longer Questions (20 Points)

1. **(Removal of Export Subsidy)** Suppose the supply and demand for Continentia, a large country, is as follows:

$$D = 900,000 - 150P$$

$$S = 100,000 + 50P$$

Assume that the free trade world price is \$5,000 per unit. Furthermore, assume that the government of Continentia offers an export subsidy that increases the domestic market price to \$5,500 and lowers the world price to \$4,500. However, starting next month, the government of Continentia will be removing the export subsidy in compliance with the latest international trade pact.

- (a) What is the impact of the removal of the subsidy on domestic consumers?
- (b) What is the change in producer surplus due to the movement to free trade?
- (c) What is the net effect of moving to free trade on welfare in Continentia?
- (d) Would Continentia consumers support or oppose the policy for free trade? What about producers? Explain.

2. **(Data Exercise Using Comtrade Database)** This question asks you to dig into data on international trade flows. Navigate over to <https://comtrade.un.org/labs/data-explorer/>. This website provides detailed data on exports and imports of specific products from a given country at a particular point in time. We are interested in analyzing U.S. trade in 2017. To that end, narrow your search as follows:

- Click on “Select region” and choose “Developed North America”
- Click on “Select country/area” and choose “USA”
- Click on “Select year” and choose “2017”

After having completed these steps, pick any commodity in the “Select commodity” field. You will use this product throughout to answer the question.

- (a) List the main country destinations for U.S. exports of this commodity.
- (b) List the main country sources of U.S. imports for this commodity (you can determine this by clicking on “Import” to the left of “Select region”, and just below “Flow of trade”).
- (c) Is the U.S. a net exporter or importer of the commodity?
- (d) Suppose that you are a U.S. policymaker and your goal is to support the domestic industry that produces this commodity
 - (i) Select a trade policy to propose to the Secretary of Commerce (there is no right or wrong answer here)
 - (ii) Analyze the effects of the policy you propose on prices and quantities in the domestic and world market for this commodity (your answer must explicitly state your assumptions on country size and/or market structure).
 - (iii) Lastly, using relevant figures, analyze the welfare effects of the policy.